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Israel: The Market for Cellular Goods and Services

Summary:

Israel's telecommunications market is estimated to be around \$5 billion. The telecommunications market experienced excellent growth in revenues, spurred by an increasing level of cellular and Internet services demand. Mobile services are the leading market segment since they account for 52 percent of the market share, followed by fixed services 24 percent and Cable TV with 12 percent for international long distance calls and Internet. There are 3.1 million direct exchange lines, 6.5 million cellular telephone subscribers, 1.4 million multi-channel TV subscribers and over one million households (64 percent) have Internet connection, of which 900,000 (88 percent) have high-speed Internet. Most of the telecommunications market revenues come from wireless technology and Internet. Opportunities exist for U.S. exporters in almost all sectors of the wireless and broadband industry.

The cellular market segment is the main growth engine behind the Israeli telecommunications market. All four cellular operators provide 99 percent countrywide coverage and modern network services. Israel's cellular market continues to grow and is always seeking new and innovative applications such as "value-added services". Text and data services are now available in SMS, WAP and IP formats, on GPRS and EDGE technologies.

The Israeli government recently approved the use of Wireless technologies, such as Bluetooth devices and WiFi/802 and .11 networking solutions. Many Israeli companies are active in developing and manufacturing telecommunications and networking equipment. Still, Israel imports over \$1 billion of telecommunications equipment each year, of which \$300 million is imported from the United States. In addition, over \$100 million in telecom services are imported from the United States. With over 52 percent of the entire telecommunications service market, the cellular companies are major players in the Israeli wireless market. Israel has one of the highest phone ownership per person ratios in the world, it is not uncommon to meet people with 2 or more cell

Market highlight and best prospects:

Israelis are technologically savvy and love to talk. This has contributed to high mobile penetration and a market with great potential of 6.5 million people. Three operators lead the mobile service market in Israel and face one other serious challenger. This creates a competitive climate for mobile applications. Cellcom has led the mobile market among Israeli operators, but has recently been seeing increasing competition from Partner, an Orange affiliate. Pelephone has lost a little ground to these other operators while Mirs (Motorola Integrated Radio Services), a joint venture between Motorola Israel and Ampal American-Israel Corp., accounts for less than five percent of the market share.

Market Players

Operator	Market share	Subscribers	Technology
Cellcom	33 percent	2.4 million	TDMA, GSM, EDGE and 3G
Pelephone	31 percent	2.2 million	UMTS, 3G for CDMA
Partner (Orange)	32 percent	2.37 million	GSM/GPRS/UMTS, 3G
Mirs	4 percent	300,000	IDEN (integrated digital enhanced network)
Jawwal	45 percent (Palestinian market)	500,000	GSM/GPRS, EDGE

According to research firm Strategy Analytics: "Israel is a highly urbanized, technologically literate society. Israelis are used to having world-leading technology in many other fields, and mobile phones are no exception. All mobile operators make a good profit from the high volume of traffic generated." According to market players, voice is not what makes the cellular market interesting. Israel is a good market for operators to test new applications and the major vendors realize this service. Israel is technologically oriented, making launching new services easier. Cellcom and Partner have just begun offering Blackberry (mobile e-mail) while an increasing number of handsets are capable of displaying e-mail. The business opportunities that exist involve applications that will boost the use of 3G, and location-based services (LBS), which are beginning to take off."

Indeed, with mobile penetration reaching 107 percent, Israel is a market of users who know what they want and how to use what they get. There is a continual demand for technology that is more sophisticated and that Israelis update their handsets regularly, at least once a year. The "experience rate" for new hardware and applications is high. Operators are aware of this and seem to be striving to accommodate their subscribers. Cellcom introduced iMode, allowing it to quickly launch new advanced content services. iMode is a platform for transmitting content on advanced-generation mobile networks.

According to Israeli business news agency Globes, Cellcom launched a GPS-based voice wireless navigation service in July 2005. The service requires an additional GPS Bluetooth receiver that is attached to the handset. Users can receive a voice message and visual information on the handset's screen, and are constantly updated during the journey. Mirs offered a similar service where the GPS receiver was built into the handset. Pelephone is the first Israeli cellular carrier to deploy the 3G CDMA 2000 1X network. It markets itself directly to the youth segment with its Escape or "ESC" package, rich in value-added applications such as MMS, location-based services and gaming. Last year, Pelephone launched push-to-talk over cellular (PoC).

The Ministry of Communications (MOC) is working to promote and enhance competition in the cellular import field. The MOC is looking to open the cellular handsets market, by allowing any and all importers to bring new handsets into Israel without the approval of the cellular companies as it is today. According to the Minister of Communications, Dalya Itzik, revoking the cellular companies exclusiveness will allow additional importers to penetrate the market, and may reduce

the cost of mobile phones. Today, anyone interested in importing mobile phones needs to get the approval of the relevant cellular operator company and receive a "type authorization". The cellular companies themselves are selling well over 90% of all mobile phones. The variety of mobile phones is not limited, but the market has a lot more to offer. Once this new reform comes to place, the MOC will need to make sure that importers will follow a few conditions – which will prevent damage to the cellular networks and to ensure customer quality. In the future, the cellular operators' involvement will be strictly technological, without any marketing considerations.

Best prospects

Israel has a demand – and thus a business opportunity – for location-based services. Pelephone and Cellcom recently launched a new service, where customers can track the precise location of their child within seconds. Pelephone's service "Where is my child?" uses GPS infrastructure developed by the operator. And with Cellcom's "Where are you?" service, a parent calls a designated number and almost immediately receives an SMS reporting the child's location, though not the exact address. Another innovative and successful LBS application offered by Pelephone is its mobile radar detector, where the network calls a driver's phone whenever they approach a police radar trap. Despite the high technology, Israel is like almost any other market in the world where ring tones, wallpapers and games dominate the mobile application market. However, with the increased interest in LBS, and almost all operators now offering 3G, the rush is on to find relevant and intriguing applications.

Competitive Analysis:

The competition between the cellular operators is not about price but rather about advanced services. Operators need to attract revenues from services provided on non-wireless platforms in order to expand the market, rather than create a scenario in which revenues from voice services are transferred to revenues from data services. The average revenue per user from a cellular subscriber in Israel (ARPU) is \$36.36 per month, \$3.36 of which is for data services. Data services are expected to rise by 23.8 percent annually until 2008. Another measure that has been taken to make the market more competitive was a reduction of the inter-connect fee from 0.45 NIS to 0.32 NIS. This fee reduction took effect March 1st, 2005. Future dates were set for further reductions.

However, the churn rate, which is the percentage of subscribers switching operators each month, is low. A high churn rate implies a competitive market, since subscribers can easily switch operators as they wish, usually because of price or service. Difficulties in switching operators in Israel reduce the churn rate and competition between operators for subscribers. The monthly churn rate in Israel is 0.9 percent, compared with the global average of 2.2 percent, more than double Israel's rate.

It is quite possible that Israel's wireless market is competitive, but a higher churn rate will make it even more so. Part of the reasons that instigated this low churn rate is that the Israeli government has recently proposed a bill to institute wireless local number portability by February 2006. If legislation to this effect is passed, this will mean that Israeli wireless subscribers will be able to switch operators without the need to change their phone number. This will eliminate one of the

barriers that were preventing subscribers from switching operators and increase competition, as the churn rate will rise.

Sources: Kris Walmsley report, Alon Bamani, [Ericsson Israel](#), [Strategy Analytics](#), [Pyramid Research](#), [Globes Online](#), [CIA World Factbook](#)

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- We track and collect all responses and comments and send you **Seven Results Reports!**
- Participation fee of \$2,500 includes the **partner/customer search in all 7 markets!**

If you have any questions about the event or registration, contact:

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